

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday July 21, 1976

CI NIDC 76-170C

NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

DIA review(s) completed.

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State Dept. review completed

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Approved For Release 2007/03/06 : CIA-RDP79T00975A029100010034-1

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National Intelligence Daily Cable for Wednesday July 21, 1976.

[REDACTED] The NID Cable is for the purpose of informing senior US officials.

LEBANON

[REDACTED] Another attempt to arrange a Syrian-Palestinian dialogue failed yesterday, probably because of Syria's renewed insistence that the Palestinians adhere to the Cairo accords.

[REDACTED] Faruq Qaddumi, Yasir Arafat's chief adviser on foreign affairs, was to have flown to Damascus yesterday, reportedly to hold discussions with Syrian leaders on yet another of Libyan Prime Minister Jallud's peace proposals. He was to convey the conditions the leftists and Palestinians will insist upon before agreeing to a meeting between Arafat and President Asad.

[REDACTED] According to leftist radio broadcasts, Qaddumi turned back shortly after his departure. No reason was given.

[REDACTED] The leftist radio had claimed earlier that the Syrians told Jallud they would withdraw from Sawfar "soon after" a Palestinian delegate arrived in Damascus. According to other press reports, however, Syria gave Jallud two other conditions before it would consider withdrawing from Sawfar and southern Lebanon: ending Palestinian propaganda against Damascus and the Christians; and Palestinian agreement to implement, under Syrian control, the Cairo accords of 1969, which place severe restrictions on Palestinian activity in Lebanon.

[REDACTED] A meeting on Monday between Arafat and a leader of the Christian Phalanges party resulted in an agreement to introduce Arab peace-keeping forces into a limited buffer zone between the two sectors of the city. According to press reports, an Arab League mediator has been in touch with both sides in an attempt to arrange the introduction of the peace-keeping troops.

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[] The Phalanges may have some trouble, however, in getting the more extremist Christian parties to go along with such an arrangement, which would presumably also permit sorely needed supplies to reach Muslim-held sections of Beirut.

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[] The Phalangists are also said to have agreed to a proposal by Shia Muslim leader Musa Sadr--who supports the Syrian intervention and has tried to remain neutral between the Christian and Muslim antagonists--for a cease-fire today at Tall Zatar that would allow wounded and anyone wishing to surrender to be transported to west Beirut, the Muslim area of the city.

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[] Fighting continued yesterday at Tall Zatar and the surrounding suburbs of Beirut, including reports of tank battles and unspecified "suicide operations." Violent clashes took place in central Beirut.

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[] A concerted Christian offensive on Palestinian positions at Mutayn and Aynturah in the Mount Lebanon area began late Monday. The Syrians have been involved in the ground action in the area of Sawfar, and have cut off a leftist supply route to the mountain. Their involvement in the offensive is in keeping with earlier reports of Syrian-Christian plans. It casts even more doubt on their willingness to withdraw from the area.

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[] Southern Lebanon is generally quiet. The press has reported continued progress in the construction of a Palestinian-leftist military airfield at Badharan, about 11 kilometers (7 miles) from Syrian positions at Jazzin. In the north the Syrians are still blockading Tripoli and bombarding the nearby Nahr al-Barid refugee camp.

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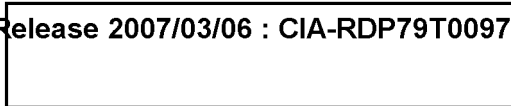
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SOUTH AFRICA

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[REDACTED] A localized student strike in South Africa yesterday touched off the most serious racial violence there since the urban rioting in mid-June that resulted in 176 deaths.

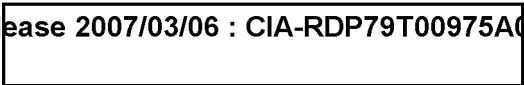
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[REDACTED] High-school students in a black township east of Johannesburg began stoning government buildings and vehicles yesterday morning and by evening some 3,000 black youths were participating in the violence. At least 20 whites were injured by the rioters and one black was killed by police, according to press reports. The clashes evidently ended early this morning.

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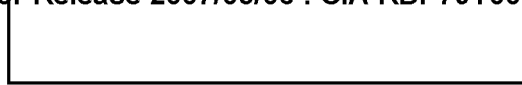
[REDACTED] Student disturbances occurred in two other black townships yesterday, but apparently were suppressed without serious violence.

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[REDACTED] Soweto and the 17 black townships that were involved in the rioting last month were calm yesterday. Most of the country's black students resumed studies peacefully yesterday after the winter recess. [REDACTED]

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CHINA-JAPAN

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[REDACTED] Potentially serious problems are marring relations between Peking and Tokyo, and there is little prospect for early improvement.

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[REDACTED] Japanese Foreign Minister Miyazawa has taken a substantially tougher position in recent public statements on key issues affecting Sino-Japanese relations. In Peking's view, perhaps the most troublesome change is Tokyo's treatment of the Taiwan issue. Peking has formally protested Japanese "backsliding" on this question twice during the past month.

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[REDACTED] On Monday, the Chinese expressed "serious regrets" at Miyazawa's recent statement to Senator Mansfield that any dramatic improvement in Washington's relations with Peking would adversely affect East Asian security.

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[REDACTED] The Chinese charged the Japanese with interfering in China's internal affairs and asserted that Miyazawa's statement was a violation of the 1972 Sino-Japanese agreement on the Taiwan question. Chinese press criticism of Miyazawa has included the sharpest language since relations were established.

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[REDACTED] Last month, the Chinese protested the arrest of several pro-Peking Chinese residents who had attempted to occupy the headquarters of a pro-Taipei Chinese association in Yokohama.

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[REDACTED] Both protests reflect Peking's concern that Tokyo may be reverting to a "two Chinas" approach to the Taiwan issue. The Chinese are almost certainly also worried about the level of attention Taipei is getting in other countries, especially the US. Their remarks to the Japanese serve to remind this wider audience that Peking has not changed its position on Taiwan.

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[] Chances are poor for early conclusion of a Sino-Japanese peace and friendship treaty. Over the past year, Peking has repeatedly rejected Tokyo's attempts to devise a compromise formula on the anti-hegemony clause, the implicitly anti-Soviet formulation that is the major stumbling block in negotiations for the treaty.

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[] Last week, Miyazawa explicitly cited differences between the two sides' attitudes toward Moscow as the primary obstacle to the treaty; previously, Tokyo had described difficulties relating to the treaty in less direct fashion. Miyazawa also recently criticized Peking for interfering in Tokyo's relations with Moscow by overplaying Japan's demands for Soviet reversion of the Northern Territories to Japan.

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[] Tokyo's relations with Moscow are correct at best, and the cooling atmosphere in Sino-Japanese relations does not presage a shift by Tokyo from Peking toward Moscow. Rather, the thrust of Japanese policy is directed more at underlining the status quo vis a vis China than at pressing ahead toward full normalization of relations. []

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PERU

[REDACTED] The resignation last Friday of Peruvian Prime Minister Fernandez Maldonado increases the chances for more flexible and pragmatic government approaches to Peru's economic problems. It could bolster Peru's case for a \$400-million stopgap loan it is seeking from New York banks. The loan would enable President Morales Bermudez to ride out the current budgetary crisis.

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[REDACTED] Morales Bermudez may now be able to improve relations with leaders of neighboring countries, who viewed Fernandez Maldonado as a dangerous leftist and distrusted his influence on the government. Newly appointed Foreign Minister Jose de la Puente is a respected career diplomat.

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25X1 [] //Some members of the army may resent the manner 25X1
of Fernandez Maldonado's removal, although there has been no
open protest so far.

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25X1 [] Army officers may resent political gains by the navy
in the cabinet shuffle. The navy now has four slots to match
the air force's four. Army officers will no doubt assume this
increased influence is based on the navy's leading role in the
protracted rightist struggle against Fernandez Maldonado.

25X1 [] Although the weekend's events leave the centrists
clearly ahead, the radicals are still represented in the cabi-
net--notably Foods Minister Hoyos and Industries Minister Iba-
nez--and have influence elsewhere in the government, particu-
larly with labor, and agrarian and student groups.

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ARGENTINA

25X1 [] The death of Argentine guerrilla leader Roberto San-
tucho and six of his comrades has dealt a serious blow to the
People's Revolutionary Army, the terrorist group that the mili-
tary has been pursuing for more than a year. The cadre of ter-
rorists that remains, however, will probably continue its indis-
criminate violence.

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[REDACTED] //Santucho, along with one of his chief lieutenants, was killed Monday when army troops stormed a hideout near Buenos Aires. The other five terrorists were killed in a later operation. Earlier this month, another leader was killed in a similar raid.//

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[REDACTED] //The other major guerrilla organization, the Montoneros, has suffered comparatively little damage during the army's counterterrorist campaign. Security forces have confiscated a large quantity of weapons, but the organization remains viable, well-armed, and committed.//

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[REDACTED] //The serious reverses suffered by the People's Revolutionary Army may force the remnants of the group to link up with the Montoneros, advocates of a broad-based "National Liberation Front." Past efforts to create such an alliance have failed.//

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[REDACTED] //The government badly needed a success against the insurgents both to mollify right-wing critics within the military and to demonstrate to the Argentine people that it can handle the terrorist problem. There are signs that Argentines are fed up with the terrorists and are beginning to inform police about suspected terrorists and hideouts. Santucho's death should encourage further cooperation and increase the momentum of the government's campaign against all terrorists.//

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USSR

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[REDACTED] The USSR will no longer permit American scientists to visit the Kurchatov Institute of Atomic Energy branch at Krasnaya Pakhra, near Moscow. In an abrupt announcement at the recent Fusion Power Coordinating Committee meetings in Moscow, the Soviets said that for security reasons all unclassified fusion work was being moved from Krasnaya Pakhra, thus eliminating any reason for US visits there.

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[REDACTED]

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[REDACTED] Under the formal US-Soviet agreement on scientific cooperation, exchanges are to be reciprocal. If most of the important fusion research is moved to another facility available to US scientists, the closure of Krasnaya Pakhra will not violate the agreement. Much US fusion work, however, is in laboratories also involved in classified research. The Soviets may learn something of this work through their continued access to such facilities. [REDACTED]

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POLAND

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[REDACTED] Polish courts have sentenced 13 participants in the riots on June 25 to prison terms ranging from 3 to 10 years. The riots followed by a day the government's announcement of proposed price hikes on basic food items.

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[REDACTED] The regime apparently wanted to impose sentences that would be stiff enough to punish the most flagrant offenders but would avoid creating martyrs. Gierek and other national leaders have refrained from harsh, blanket condemnation of the protesters.

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[REDACTED] //A member of the Polish party Central Committee told the US ambassador that the mishandling of the proposed price increases has caused "depression, defensiveness, and a loss of self-confidence" within the leadership. He charged that party leaders had shown more than the usual "arrogance of power" but did not single out anyone for blame.//

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[REDACTED] //The official apparently did not think that a change of leadership was in order. His major worry was that the recent problems might make Western bankers and businessmen decide against investments in Poland, causing the country to slip back into the stagnant economic and political pattern of the Gomulka era.//

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[] Gierek appears to be carrying out his pledge to consult with the public about future price hikes. Last Friday he talked with workers in the port cities of Gdansk and Gdynia. On Monday he met with party first secretaries from the most important factories. In these sessions Gierek has tried to explain the need for price hikes and to demonstrate to his audiences that the regime does listen. []

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UK

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[] //July unemployment figures announced by London yesterday show the largest monthly increase since last December.//

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[] //The seasonally adjusted total stood at 1.29 million, up from 1.26 million in June. The unadjusted total of 1.46 million, 6.3 percent of the labor force, was a new postwar high.//

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[] //The sharp rise in unemployment will make it more difficult for the government to win labor's acceptance for new cuts in public spending, expected to be announced before the end of the month. Public employees, in particular, will resist proposed spending cuts.//

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[] //Despite their unhappiness, trade union leaders do not seem ready for a showdown with the government over the spending issue. Left-wing Labor members of Parliament seem to be of similar mind, although they will vociferously oppose reductions in social welfare spending.//

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[] //Both groups will bring strong pressure to bear on Prime Minister Callaghan and Chancellor of the Exchequer Healey, but one key union leader said yesterday, "the Trades Union Congress will not preside over the demise of the Labor government."//

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[] //In any event, with the economic recovery now taking hold, unemployment should begin to level off later this year.

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GOLD

25X1 [] Gold prices hit a two and one half year low of \$107.75 an ounce yesterday afternoon. The \$14-an-ounce drop since the second International Monetary Fund gold auction last Wednesday continues the decline that began shortly after the first IMF auction on June 2.

25X1 [] The price in London yesterday was almost 12 percent below the price on June 2, and 23 percent below prices last January just prior to the IMF decision to sell gold. European countries with extensive public and private gold holdings may soon seek US cooperation to defer IMF sales.

25X1 [] The recent price movements stem mainly from a sharp increase in the supply of new gold to Free World markets. Since June 2, IMF sales--24 tons at 6-week intervals--have in effect increased the new gold supply by 17 percent.

25X1 [] //In addition, [] the Soviets have increased their market sales substantially; they may have reached an annual rate of more than 250 tons, compared with 147 tons in 1975. South African production and sales, which had been declining for several years, leveled off in the first half of 1976 and are expected to increase slightly in the second half. As a result, the current rate of gold supply is at least 25 percent above the pace in 1975.//

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25X1 [] The demand for gold has not kept pace with the increase in supply. Industrial demand, although recovering, remains well below the peak 1971 level. The IMF sales, coupled with slowing inflation, have dampened speculative demand.

25X1 [] Many countries are undoubtedly concerned over the price decline. The USSR, facing a current-account deficit of \$4 to \$6 billion this year, will find it increasingly difficult and expensive to borrow on private capital markets. Last year, Moscow earned approximately \$750 million from market gold sales. If the Soviets sell at a rate of 250 tons per year, each \$1-per-ounce decline in the gold price costs them about \$8 million annually.

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[] South Africa, also in a payments bind, earned \$3.5 billion from gold sales in 1975 and would feel the effects of declining gold prices even more sharply than the USSR.

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[] Several West European countries that hold extensive public and private gold stocks may become concerned over recent price movements. Portugal and Italy have used gold to back loans to meet payments obligations. These two countries as well as France and Switzerland have a vested interest in a strong gold market.

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[] Unless the IMF auctions are curtailed, gold prices are unlikely to recover this year. Industrial demand will continue to recover but not enough to improve prices. Moscow's financial needs will force it to continue to sell gold, and South Africa must also continue to sell. West European countries, some of which have recently purchased gold through the Bank for International Settlements, are not likely to step up their purchases enough to offset the increased supplies.

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[] Some governments may exert pressure to alter the agreed program of IMF gold sales. The Fund's authorization to sell gold calls for sales of 780 tons over the next 48 months, with auctions held about every six weeks. []

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